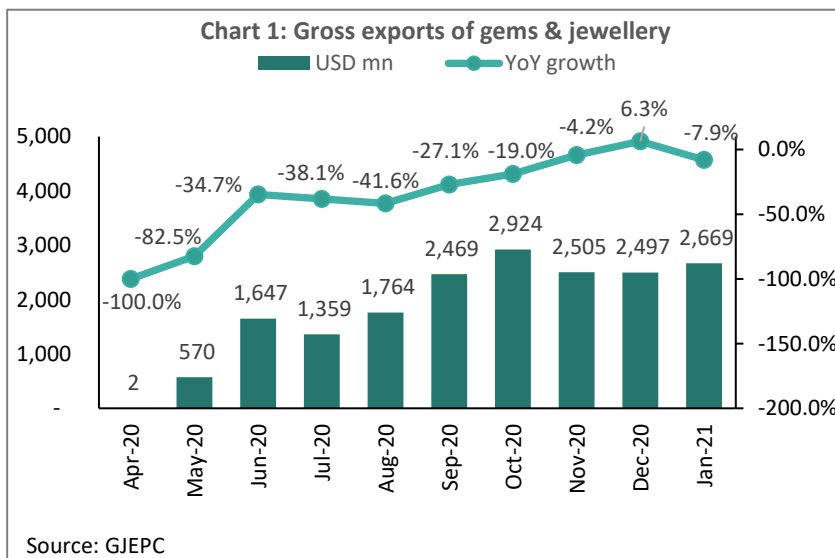


# Gems and Jewellery Sector Update: 10M-FY21

February 16, 2021

Gems and jewellery is one of the leading sectors in India's exports with 11% share and is ranked high in terms of labour intensity employing ~4.6 million people. India is the world's largest centre for cut and polished diamonds, exporting 75% of the world's polished diamonds. It is estimated that 14 out of 15 diamonds sold in the world are either polished or cut in India. The country also contributed 23% to global jewellery consumption and was the 2<sup>nd</sup> largest consumer of gold globally, after China, with a share of 19% in CY2020.

According to GJEPC, gross exports from India declined by 10.2% YoY to USD 35.5 billion in FY20, on the back of US-China trade war, protests in Hong Kong, the implementation of VAT in the Middle East, high import duties on polished diamonds, gold and other commodities etc. Alongside, due to a credit crunch and sharp rally in gold and silver prices, domestic consumption during the same year was affected.



In the following year of FY21, due to the covid-related restrictions, Q1-FY21 turned to be a major disappointment for trade as well as domestic demand. While the international borders restricted their trade to essential commodities, domestic market could not witness much sales due to the closure of retail showrooms. Hence, online mode of selling, being the only alternative, gained pace. H2-FY21 onwards, as the restrictions eased, exports picked momentum, and for the cumulative 10 months of FY21, exports reached 2/3<sup>rd</sup> of previous year's levels.

The imports of gems jewellery declined 41.3% YoY to USD 11.8 bn in 10M-FY21. As viewed in table 1, the top traded commodities during the same period were cut and polished diamonds whose exported value is at nearly 80% of pre-covid levels, while imports of the same increased by 1/3<sup>rd</sup> on a YoY basis. The exports of gold jewellery and rough diamonds declined, while that of polished lab grown diamonds and silver jewellery rose. The demand for rough lab grown diamonds rose by 54.3%, while that of gold bar declined sharply by 87.6%.

**Table 1: Top traded commodities of gems and jewellery in 10M-FY21**

Commodity	Gross exports		Imports	
	USD mn	YoY growth	USD mn	YoY growth
Cut and polished diamonds	12,493	-23.4%	1,627	32.9%
Gold jewellery	3,552	-64.9%	203	-11.7%
Silver jewellery	1,768	45.3%	19	-65.5%
Polished lab grown diamonds	559	56.9%	35	-60%
Rough diamonds	254	-73.4%	8,023	-26.5%

Source: GJEPC

## Credit growth

After 2018 bank lending to the gems and jewellery sector has been overly cautious. In FY18, outstanding credit stood at Rs. 727 bn, which declined by Rs. 6 bn in FY19. Credit growth further fell sharply by Rs. 125 bn in FY20, which marginally rose in FY21 and as on 18<sup>th</sup> December 2020, the outstanding credit to this sector stood at Rs. 630 bn.

## Policy updates

1. The rationalization in custom duty on gold and silver from 12.5% to 7.5% was a welcome and timely move for the gems and jewellery sector. Such a move was much required, as earlier exports became uncompetitive leading to large Indian diaspora/NRI, moving to Dubai, Hong Kong or other centres to buy jewellery, which largely impacted the employment as well as business in India. A cut in import duty is expected to help curb smuggling and spur business in the organized segment and make jewellery cheaper for the consumers in the domestic market. However, the government has proposed a levy of 2.5% of Agriculture Infrastructure and Development cess, which makes the net duty reduction of 2 to 2.25%.
2. Custom duties on intermediate products like gold and silver findings was cut from 20% to 10%. The findings are being considered as finished jewellery for the purpose of levying duty when imported. The reduction in duty is expected to benefit DTA manufacturers boosting exports as well as domestic sales, as cost of findings would henceforth decline.
3. The reduction of import duty on silver dore Bar, gold/silver findings and spent catalyst or ash containing precious metals will push India to become the centre for refining these raw materials, thus generating more jobs in the sector. Also, considering the annual consumption of gold, India's domestic and export market is expected to benefit.
4. The setting up of a new SEBI-regulated gold exchange is expected to ease the marketability and sale of gold.

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